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SUBJECT: JAZEERA AIRWAYS TO LAUNCH LOW-COST FLIGHTS FROM KUWAIT

1. (U) SUMMARY On October 18, Econoff met with Suhail Homsi of the new Jazeera Airways (JA). JA is a publicly-traded company with the Boodai Corporation holding a controlling stake of 30% of the shares. The new airline will begin flights to Dubai on October 30 and to other regional destinations within the next few months. JA has purchased four Airbus aircraft with an option purchase four more, which Homsi expects will happen within a year. JA will operate on a low-cost model by outsourcing ticketing, maintenance, and ground crew operations. JA is the first private airline in Kuwait and the first low-cost airline in the Middle East. END SUMMARY

2. (U) In an October 18 meeting, Econoff discussed the impending launch of Jazeera Airways with Boodai Corporation Senior Director of Support and Development Suhail Homsi, an American citizen of Lebanese origin. Boodai Corp., a holding company with investments in commercial transportation and port operations, owns a controlling 30% share of JA stock; according to Homsi, over 36,000 public shareholders own the remaining 70%. GOK-owned Kuwait Airways (KA) is currently the only carrier based in the country. JA will be the first low-cost airline in the Middle East and KA's first domestic competition. JA has purchased four new Airbus MSN2569 planes configured to seat 165 each; one has been delivered and will fly the initial daily routes; a second will be delivered on November 7, and Homsi expects delivery of the other two by Spring 2006. In addition to these four, JA has an option to purchase four more of the same Airbus model and Homsi expects that JA will exercise the option within a year.

3. (U) Initially, JA will fly daily to Dubai, and once additional planes are delivered will also fly to Beirut, Amman, Bahrain, and Damascus. Homsi said that JA is currently negotiating with the Egyptian government for landing rights in Alexandria and Luxor, but because of the lack of airport capacity does not expect to initiate service to Cairo anytime soon.

"They're not flying for the meal"

4. (U) Homsi explained that JA's low-cost model focuses on minimizing overhead costs and by "stimulating passengers" who otherwise would not fly. JA's has a staff of approximately 70, with an expected increase to 100 by the end of 2005. Homsi stated that JA has outsourced as much of the services-end of the business as possible, including ticketing (Navitair), maintenance (Lufthansa), and ground and passenger handling (Kuwait Airways). Homsi said that JA will offer reservations via Short Message Service (SMS) in addition to the more traditional call center, travel agent, and website model. The airline will not schedule overnight stops or contract codeshare arrangements. JA will also keep costs down by not automatically providing meals or drinks, but will instead sell them aboard flights.

5. (U) Homsi said he does not expect JA to directly compete with GOK-owned Kuwait Airways, but instead will focus on using low fares to entice people into flying when they otherwise wouldn't, or into flying more frequently. He offered the example of an ex-patriot Egyptian worker who might choose to fly to Egypt instead of taking a bus if the airfare were cheap enough. Although JA will focus on this niche of traveler, Homsi said that he does expect JA to gain a certain amount of "stolen passengers" who will be attracted by fares as much as 50% below Kuwait Airways. Airfares in and out of Kuwait are high, and Homsi expects that the new competition will force prices downward; he noted Kuwait Airways's announcement that morning that they will cut fares by 50% on the routes to be flown by JA.

LEBARON